

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



# 新奥能源控股有限公司 ENN Energy Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 2688)

## Interim Results Announcement For The Six Months Ended 30 June 2020

### Results Highlights:

- The Group's total sales volume of natural gas increased by 4.8% to 13,832 million cubic meters, of which the retail gas sales volume increased by 4.0% to 10,163 million cubic meters;
- Integrated energy sales increased significantly by 146.2% to 4,806 million kWh;
- Profits for the period attributable to owners of the Company decreased by 19.9% to RMB2,693 million, core profit<sup>△</sup> increased by 13.8% to RMB3,112 million; and
- The Group continued to generate positive free cash flow during the period.

<sup>△</sup> Profit attributable to owners of the Company but stripping out other gains and losses (excluding net settlement amount realised from commodity derivative contracts) and amortisation of share option expenses. The fluctuation arising from other gains and losses was mitigated by the adoption of hedge accounting effective 1 January 2020

<sup>#</sup> The Group's operational data disclosed in the announcement included the data of its subsidiaries, joint ventures and associates

The Board of Directors (the “**Board**”) of ENN Energy Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2020 together with the comparative unaudited figures for the corresponding period in 2019. The interim results and the unaudited condensed consolidated financial statements have been reviewed by the Company's Audit Committee.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**  
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2020</b> <i>RMB million</i> <i>(unaudited)</i>	<b>2019</b> <i>RMB million</i> <i>(unaudited)</i>
Revenue	3	31,543	35,344
Cost of sales		<u>(25,941)</u>	<u>(29,746)</u>
Gross profit		5,602	5,598
Other income		421	373
Other gains and losses	4	(234)	793
Distribution and selling expenses		(435)	(421)
Administrative expenses		(1,392)	(1,397)
Share of results of associates		166	190
Share of results of joint ventures		266	242
Finance costs		<u>(320)</u>	<u>(375)</u>
Profit before tax		4,074	5,003
Income tax expense	5	<u>(909)</u>	<u>(1,058)</u>
<b>Profit for the period</b>		<u>3,165</u>	<u>3,945</u>
Other comprehensive (expense) income			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value gain on equity instruments at fair value through other comprehensive income ("FVTOCI")		63	-
<i>Items that have been reclassified or may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translating foreign operations		(1)	-
Release of exchange reserve to profit or loss upon deregistration of a subsidiary		-	3
Hedging instruments for cash flow hedges		<u>(230)</u>	<u>-</u>
Other comprehensive (expense) income for the period		<u>(168)</u>	<u>3</u>
<b>Total comprehensive income for the period</b>		<u>2,997</u>	<u>3,948</u>
Profit for the period attributable to:			
Owners of the Company		2,693	3,362
Non-controlling interests		472	583
		<u>3,165</u>	<u>3,945</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		2,525	3,365
Non-controlling interests		472	583
		<u>2,997</u>	<u>3,948</u>
		<i>RMB</i>	<i>RMB</i>
Earnings per share	7		
Basic		<u>2.40</u>	<u>2.99</u>
Diluted		<u>2.39</u>	<u>2.99</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2020**

	<i>Notes</i>	<b>At 30 June 2020</b> <i>RMB million (unaudited)</i>	<b>At 31 December 2019</b> <i>RMB million (audited)</i>
<b>Non-current Assets</b>			
Property, plant and equipment		39,369	37,955
Right-of-use assets		2,117	2,185
Investment properties		268	268
Goodwill		2,427	2,379
Intangible assets		4,302	4,175
Interests in associates		3,532	3,308
Interests in joint ventures		4,137	3,841
Other receivables		35	48
Financial assets at fair value		6,060	5,169
Equity instruments at FVTOCI		200	123
Amounts due from associates		6	345
Amounts due from joint ventures		25	12
Deferred tax assets		1,292	1,292
Deposits paid for investments		86	15
Deposits paid for acquisition of property, plant and equipment, land use rights and right of operation		145	169
Restricted bank deposits		442	446
		<u>64,443</u>	<u>61,730</u>
<b>Current Assets</b>			
Inventories		1,359	1,169
Trade and other receivables	8	7,647	7,492
Contract assets		673	757
Financial assets at fair value		910	361
Amounts due from associates		929	575
Amounts due from joint ventures		1,043	1,058
Amounts due from related companies		211	164
Restricted bank deposits		430	566
Cash and cash equivalents		7,938	7,373
		<u>21,140</u>	<u>19,515</u>
<b>Current Liabilities</b>			
Trade and other payables	9	6,825	7,635
Contract liabilities		12,359	12,613
Deferred income		34	33
Amounts due to associates		224	189
Amounts due to joint ventures		1,032	785
Amounts due to related companies		761	1,060
Taxation payables		862	962
Dividend payable		1,719	-
Lease liabilities		92	100
Bank and other loans – due within one year		8,041	7,495
Senior notes		2,579	-
Financial liabilities at fair value		789	416
		<u>35,317</u>	<u>31,288</u>
<b>Net Current Liabilities</b>		<u>(14,177)</u>	<u>(11,773)</u>
<b>Total Assets less Current Liabilities</b>		<u>50,266</u>	<u>49,957</u>

## Capital and Reserves

Share capital	116	116
Reserves	26,587	25,752
Equity attributable to owners of the Company	26,703	25,868
Non-controlling interests	5,244	5,152
<b>Total Equity</b>	<b>31,947</b>	<b>31,020</b>
<b>Non-current Liabilities</b>		
Contract liabilities	2,976	3,302
Deferred income	675	650
Amounts due to joint ventures	585	735
Lease liabilities	340	450
Bank and other loans – due after one year	3,771	2,848
Corporate bonds	2,095	2,094
Senior notes	-	2,539
Unsecured bonds	4,234	4,169
Financial liabilities at fair value	1,546	330
Deferred tax liabilities	2,097	1,820
	18,319	18,937
	50,266	49,957

### Notes:

## 1. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

In preparing the condensed consolidated financial statements, the directors of the Company (the “**Directors**”) have given careful consideration of the Group’s net current liabilities of approximately RMB14,177 million as at 30 June 2020. A wholly-owned subsidiary of the Company has been approved by China Securities Regulatory Commission on 10 December 2018 to issue corporate bonds amounting to RMB5,000 million. As at 30 June 2020, the unutilised issuance quota of the corporate bonds is RMB2,900 million. The wholly-owned subsidiary was also approved by the National Development and Reform Commission on 19 January 2020 to issue green bonds amounting to RMB5,000 million. Except for the unutilised issuance quota of the corporate bonds and green bonds, the Group has unutilised credit facilities of approximately RMB10,379 million as at 30 June 2020, which are subject to renewal within twelve months from the end of the reporting period. The Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

Other than the changes of accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) and application of hedge accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

In the current period, the Group has applied the Amendments to Reference to the Conceptual Framework in HKFRSs that are mandatorily effective for the current period and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and / or on the disclosures set out in these condensed consolidated financial statements.

### **Accounting policies newly applied by the Group**

In addition, the Group has applied the following accounting policies which became relevant to the Group during the period.

#### ***Hedge accounting***

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

#### ***Assessment of hedging relationship and effectiveness***

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group reviews their critical terms.

#### ***Cash flow hedges***

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

### *Discontinuation of hedge accounting*

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### **3. SEGMENT INFORMATION**

Information reported to the chief operating decision makers, being the chief executive officer of the Company (the “CEO”), for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services.

Segment profit represents the profit earned by each segment without allocation of central administration costs, distribution and selling expenses, share of results of associates and joint ventures, other income, other gains and losses and finance costs. This is the measure reported to the CEO for the purposes of resource allocation and performance assessment.

Inter segment sales are charged at prevailing market rates.

The following is an analysis of the Group’s revenue and results by reportable segments which are also the operating segments for the periods under review:

#### **Six months ended 30 June 2020**

	<b>Retail gas sales business</b> <i>RMB million</i>	<b>Sales of integrated energy and services</b> <i>RMB million</i>	<b>Wholesale of gas</b> <i>RMB million</i>	<b>Construction and installation</b> <i>RMB million</i>	<b>Value added business</b> <i>RMB million</i>	<b>Total</b> <i>RMB million</i>
Segment revenue	24,559	2,120	17,034	3,027	2,340	49,080
Inter-segment sales	(6,368)	(19)	(9,115)	(358)	(1,677)	(17,537)
Revenue from external customers	<u>18,191</u>	<u>2,101</u>	<u>7,919</u>	<u>2,669</u>	<u>663</u>	<u>31,543</u>
Segment profit before depreciation and amortisation	3,618	483	138	1,627	567	6,433
Depreciation and amortisation	(582)	(72)	(2)	(174)	(1)	(831)
Segment profit	<u>3,036</u>	<u>411</u>	<u>136</u>	<u>1,453</u>	<u>566</u>	<u>5,602</u>

## Six months ended 30 June 2019

	Retail gas sales business <i>RMB million</i>	Sales of integrated energy and services <i>RMB million</i>	Wholesale of gas <i>RMB million</i>	Construction and installation <i>RMB million</i>	Value added business <i>RMB million</i>	Total <i>RMB million</i>
Segment revenue	26,787	1,148	15,523	4,341	3,397	51,196
Inter-segment sales	(6,455)	(129)	(6,193)	(715)	(2,360)	(15,852)
Revenue from external customers	<u>20,332</u>	<u>1,019</u>	<u>9,330</u>	<u>3,626</u>	<u>1,037</u>	<u>35,344</u>
Segment profit before depreciation and amortisation	3,262	264	41	2,039	660	6,266
Depreciation and amortisation	(488)	(58)	(3)	(118)	(1)	(668)
Segment profit	<u>2,774</u>	<u>206</u>	<u>38</u>	<u>1,921</u>	<u>659</u>	<u>5,598</u>

## 4. OTHER GAINS AND LOSSES

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i>RMB million</i>	<i>RMB million</i>
Net gain of financial assets / liabilities at fair value (note a)	80	827
Loss on foreign exchange, net (note b)	(138)	(23)
Impairment losses under expected credit loss model, net of reversal:		
- Trade and other receivables	(41)	(39)
Impairment loss in respect of property, plant and equipment	(48)	-
Net loss on disposal of:		
- Property, plant and equipment	(48)	(16)
- Subsidiaries	(42)	-
Release of exchange reserve to profit or loss upon deregistration of a subsidiary	-	(3)
Gain on remeasurement of interests in joint ventures previously held	-	11
Others	3	36
	<u>(234)</u>	<u>793</u>

Notes:

- Included in the amount for the period are realised settlement gain of RMB149 million (six months ended 30 June 2019: RMB139 million) and unrealised loss of RMB68 million (six months ended 30 June 2019: gain of RMB647 million) recognised by the Group in relation to commodity derivative contracts.
- Included in the amount for the six months ended 30 June 2020 is an exchange loss of approximately RMB155 million (six months ended 30 June 2019: approximately RMB1 million) arising from the translation of senior notes, unsecured bonds and bank loans denominated in USD and HK\$ to RMB.

## 5. INCOME TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i>RMB million</i>	<i>RMB million</i>
Current tax	758	853
Withholding tax	7	40
Overprovision of withholding tax in prior years	(71)	-
	<hr/>	<hr/>
	694	893
Deferred tax	215	165
	<hr/>	<hr/>
	909	1,058
	<hr/>	<hr/>

As the major operating income of the Group are sourced from the PRC, the tax charge substantially represents PRC Enterprise Income Tax for both periods. According to the PRC Enterprise Income Tax Law and its implementation regulations, the PRC enterprise is subject to 25% tax rate.

Certain subsidiaries of the Company are qualified as “High and New Tech Enterprises”, which are subject to PRC enterprise income tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years and the subsidiaries are eligible to apply the tax concession again upon expiry of the three-year period.

## 6. DIVIDEND

The final dividend in respect of fiscal year 2019 of HK\$1.67 (equivalent to approximately RMB1.50) per ordinary share (six months ended 30 June 2019: final dividend in respect of fiscal year 2018 of HK\$1.19 (equivalent to approximately RMB1.04) per ordinary share) amounting to approximately RMB1,719 million (six months ended 30 June 2019: RMB1,176 million) were declared on 16 March 2020 and paid on 22 July 2020.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i>RMB million</i>	<i>RMB million</i>
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share	<hr/> <u>2,693</u>	<hr/> <u>3,362</u>
	<hr/>	<hr/>
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i>'000</i>	<i>'000</i>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,122,988	1,123,248
Effect of dilutive potential ordinary shares:		
- Share options	<hr/> <u>2,313</u>	<hr/> <u>2,741</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<hr/> <u>1,125,301</u>	<hr/> <u>1,125,989</u>
	<hr/>	<hr/>



Diluted earnings per share for the six months ended 30 June 2020 and 2019 are calculated assuming all dilutive potential ordinary shares were converted.

## 8. TRADE AND OTHER RECEIVABLES

Included in the trade and other receivables are trade receivables amounting to RMB2,306 million (31 December 2019: RMB2,362 million). The following is an aged analysis of trade receivables, net of impairment, presented based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	<b>At 30 June 2020</b> <i>RMB million</i>	<b>At 31 December 2019</b> <i>RMB million</i>
0 to 3 months	1,462	1,792
4 to 6 months	382	76
7 to 9 months	194	192
10 to 12 months	39	55
More than one year	229	247
	<u>2,306</u>	<u>2,362</u>

## 9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of RMB5,081 million (31 December 2019: RMB5,698 million). The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

	<b>At 30 June 2020</b> <i>RMB million</i>	<b>At 31 December 2019</b> <i>RMB million</i>
0 to 3 months	2,946	3,559
4 to 6 months	889	1,135
7 to 9 months	471	238
10 to 12 months	138	161
More than one year	637	605
	<u>5,081</u>	<u>5,698</u>

## BUSINESS REVIEW

The major results and operational data of the Group for the period together with the comparative figures for the corresponding period last year are as follows:

	<b>Six months ended 30 June</b>		<b>Increased/ (Decreased) by</b>
	<b>2020</b>	<b>2019</b>	
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	
<b><u>Results</u></b>			
Revenue ( <i>RMB million</i> )	31,543	35,344	(10.8%)
Gross profit ( <i>RMB million</i> )	5,602	5,598	0.1%
Profit attributable to owners of the Company ( <i>RMB million</i> )	2,693	3,362	(19.9%)
Basic earnings per share ( <i>RMB</i> )	2.40	2.99	(19.7%)
<b><u>Operational data</u><sup>#</sup></b>			
Number of city-gas projects in China	229	201	28
Urban population coverage ( <i>thousand</i> )	107,573	99,950	7,623
New natural gas customers developed during the period:			
– residential households ( <i>thousand</i> )	1,025	1,287	(262)
– C/I customers ( <i>sites</i> )	8,326	12,110	(3,784)
– installed designed daily capacity for C/I customers ( <i>thousand m<sup>3</sup></i> )	6,559	8,638	(2,079)
Accumulated number of piped gas customers:			
– residential households ( <i>thousand</i> )	21,945	19,787	2,158
– C/I customers ( <i>sites</i> )	157,087	133,209	23,878
– installed designed daily capacity for C/I customers ( <i>thousand m<sup>3</sup></i> )	131,268	115,178	16,090
Piped gas penetration rate	61.2%	59.4%	1.8 ppts
Retail gas sales volume ( <i>million m<sup>3</sup></i> )	10,163	9,769	394
Wholesale of natural gas sales volume ( <i>million m<sup>3</sup></i> )	3,669	3,435	234
Number of natural gas processing stations	199	191	8
Combined daily capacity of natural gas processing stations ( <i>thousand m<sup>3</sup></i> )	154,017	139,360	14,657
Total length of existing intermediate and main pipelines ( <i>km</i> )	56,902	49,444	7,458
Accumulated number of integrated energy projects in operation	108	82	26
Integrated energy projects under construction	23	37	(14)
Sales volume of integrated energy ( <i>million kWh</i> )	4,806	1,952	2,854

<sup>#</sup> The Group's operational data disclosed in the announcement included the data of its subsidiaries, joint ventures and associates.

## INTERIM RESULTS

In the first half of 2020, COVID-19 continued to ravage and seriously affected economic activities globally, many countries experienced recession during the period. China has achieved remarkable results in pandemic control. Economic activities, especially industrial production, began to restart in the second quarter. Coupled with a series of economic stimulus and tax preferential policies launched by the Chinese government, GDP in the second quarter rebounded rapidly from 6.8% contraction in the first quarter to 3.2% growth. The Chinese government has continued to encourage the development of natural gas as one of the main energy sources to reduce environmental pollution. Local governments have continued to promote energy structure optimisation, integrated utilisation of multiple energy sources, as well as “coal-to-gas” conversion. Together with the lowering of domestic natural gas city gate price, the overall demand for natural gas in China has gradually recovered. According to the data of the National Development and Reform Commission, China’s natural gas consumption in the first half of 2020 reached 155.6 billion cubic meters, a year-on-year increase of 4%.

The global pandemic has affected liquefied natural gas (“LNG”) demand in various countries. Under the backdrop of oversupply and low oil price, the international LNG price continued to decline. The Group took advantage of its own long-term LNG import contracts and the right of accessing to controlling shareholder’s Zhoushan terminal to import low-cost LNG from global sources in the period, which greatly reduced the Group’s gas procurement costs and increased the competitiveness of natural gas. In addition, the Group has superior geographical coverage in economically well-developed coastal areas, and a quality customer structure dominated by industrial customers, thus, the impact brought about by the pandemic was lessened. Through deepening customer understanding, diversifying resources, improving internal operation efficiency and other key measures, we have achieved remarkable results in this challenging period!

During the period, total volume of natural gas sales of the Company, together with its subsidiaries, joint ventures and associates, increased by 4.8% compared to the same period last year to 13,832 million cubic meters. The Group passed through the reduction of upstream natural gas price to end-users, hence, revenue of the Group reduced by 10.8% to RMB31,543 million. Diversified gas procurement strategy successfully reduced the Group’s cost, during the period, the gross profit margin of retail gas sales business and wholesale of gas increased by 3.1 percentage points to 16.7% and 1.3 percentage points to 1.7% respectively, hence, improving the Group’s overall gross profit margin by 2.0 percentage points to 17.8%.

Profit attributable to shareholders amounted to RMB2,693 million, down by 19.9% compared to the same period last year. The decline was mainly due to the significant fair value change of commodity derivative contracts between the two periods. With the adoption of hedge accounting since the beginning of this year, the impact on statement of profit and loss due to such fair value change was reduced. Stripping out other gains and losses (excluding net settlement amount realised from commodity derivative contracts) and amortisation of share option expenses, the core profit driven by operating activities increased by 13.8% to RMB3,112 million.

## BUSINESS REVIEW

### Development of new customers

Most of the Group’s projects are located in key areas of air pollution prevention and control such as Beijing-Tianjin-Hebei, Guangdong, Henan, Shandong, Jiangsu, Zhejiang, where local governments strictly implement environmental protection policies. At the same time, an increasing number of customers are paying attention to green production and carbon content of their own products. With the lowering of natural gas price in the first half of the year and adequate gas supply, coupled with the effective pandemic control in China, the Group has been accelerating its development of new C&I customers.

During the period, the Group developed a total of 8,326 C/I customers (installed gas appliances with designed daily capacity of 6,559,072 cubic meters). Among which, incremental designed daily capacity from “coal-to-gas” customers was approximately 1.97 million cubic meters, accounting for 30% of newly-developed C/I customers. As of 30 June 2020, the total number of C/I customers served by the Group has reached 157,087 (installed gas appliances with designed daily capacity of 131,267,854 cubic meters). The Group will continue to strengthen its understanding on customers’ demand, dig deeply the potential of customers’ energy utilisation, enhance customer experience and satisfaction, and lay a strong foundation for further expansion of gas sales volume and development of integrated energy business.

According to the National Population Development Plan (2016-2030) issued by the State Council, the urbanisation rate of China's permanent residents will increase from 60% to 70% by 2030. China is sprinting toward a "moderately well-off society". In this context, large-scale urbanisation and the demand arising from people's pursuit of quality life, shall continue to provide the Group with enormous opportunities for developing urban residential market. At the same time, the Group also took advantage of the opportunities brought about by the government's initiatives to promote the transformation of old urban residential areas to untap market potential, and focus on the development of the old housing market. Outside the urban areas, the Group continued to focus on areas with higher affordability to implement "rural coal-to-gas" projects as part of its efforts to assist the local governments in achieving the replacement of scattered coals for the prevention and control of air pollution.

Since the beginning of 2020, the COVID-19 has caused delays in the construction and installation progress for new customers. The number of new residential customers developed was 1,025,000, representing a decrease of 262,000 from the same period last year. Among which, new buildings, old buildings and "rural coal-to-gas" conversion accounted for 73%, 7%, and 20% respectively. The average construction and installation fee was RMB2,508 per household, maintaining at a stable level over the past years. As of 30 June 2020, the Group has developed 21.94 million residential customers cumulatively, raising the average piped gas penetration rate to 61.2%. The Group proactively coordinated construction resources to accelerate new customers development progress in the second half of 2020.

### **Retail Gas Sales Business**

Since the beginning of this year, COVID-19 has brought severe challenges to economies. The Group has been actively helping C/I customers on work and production resumption and ensure gas supply safety, while adhering to the government's efforts in pandemic prevention and control. With a customer-oriented strategy, the Group digs deep into existing customers and explores new customers with natural gas demand. At the same time, the Group has also collected and analysed customer energy consumption data through the established intelligent operation platform to fully understand customers' energy consumption patterns and demands, so as to customise solutions to address their issues in energy consumption and promote the continuous growth of customers' demand.

With the overall adequate resources of natural gas supply in the first half of the year, the Group flexibly adjusted its resource procurement strategy, and actively negotiated preferential pricing for incremental volume, while securing contract volume with the three major oil companies. The Group passed through the reduction of city gate price to end users, reduced customers' energy consumption cost, and attracted customers to continue to use energy. At the same time, the Group increased its import of low-cost LNG through long-term contracts and from spot market utilising its controlling shareholder's Zhoushan terminal, which effectively optimised its gas supply structure and reduced overall procurement cost of gas source. We shared part of the cost saving with customers having difficulties in running their businesses and high price sensitivity, effectively stimulated customers' gas consumption. At the same time, the Group also seized the opportunities of low international LNG price and preferential price for incremental gas purchase, actively expanded the number of downstream customers outside our concessions through interconnecting surrounding pipeline networks so as to increase gas sales volume.

During the period, the Group's natural gas sales volume increased by 4.0% to 10,163 million cubic meters. Due to the decline of upstream natural gas prices during the period, the Group conducted price pass through to end users, resulting in a decrease of 10.5% in revenue to RMB18,191 million. Benefiting from the diversified upstream procurement of the Group, especially the cost savings brought by imported LNG, the gross profit of retail gas sales increased by 9.4% to RMB3,036 million.

### **Integrated Energy Business**

In the first half of the year, despite a weak macro economy, the Group's integrated energy projects were more appealing to customers given the advantage of improving energy efficiency for customers and reducing their overall energy costs. During the period, a total of 10 integrated energy projects were put into operation, accumulated number of projects in operation increased to 108, generating a total of 4,806 million kWh of integrated energy sales per year to the Group, up 146.2% over the same period last year. Our integrated energy solutions not only brought sustainable benefits to the Group, but also benefited our customers through successful reduction of energy consumption by more than 146,363 tons of standard coal

and carbon dioxide emissions by 611,852 tons, effectively facilitated energy transformation and improved environmental benefits. A total of 23 projects are under construction, which will be gradually put into operation in the next two years. A total of 21,360 million kWh of integrated energy sales per year can be achieved upon full utilisation. During the period, a total of 230 industrial park integrated energy projects have been signed, of which 148 are located outside the Group's city-gas concessions. We believe the business will develop rapidly when some of the quality projects are approved to go through and put into operation. Meanwhile, the Group also actively promotes the asset-light business model of "invested by customers + operated by ENN". Customers are responsible for the investment of related energy equipment and facilities. As the entrusted party, ENN is responsible for the operation management and daily maintenance of equipment and facilities, as well as the procurement and settlement of raw materials, both parties will then settle the accounts according to the pre-negotiated energy prices. Through energy saving and optimising operation efficiency, project profitability can be enhanced.

### **Value Added Business**

The Group has a large customer base and has provided gas supply for more than 21.94 million residential customers and 157,087 C/I customers. The potential added value of our customer network is huge. With our "customer-oriented" business philosophy, we are able to develop in-depth understanding of customer needs, while developing and enriching our extended products and services, and designing value added product packages for different customers to meet their personalised needs through an innovative one-stop energy butler and life housekeeper service model.

In the first half of the year, affected by COVID-19, the Group's revenue from value added business amounted to RMB663 million, down 36.1% from the same period last year. During the pandemic, although we have reduced the frequency of face-to-face communication with customers, the Group proactively promoted the use of mobile apps, online service platforms, and various social channels such as TikTok, Kwai, and WeChat official accounts to customers, successfully expanded our online users base, which laid a strong foundation for the rapid business growth in future. Furthermore, the Group provided diversified value added services to customers including high-end and smart products, therefore, gross profit of the segment increased significantly by 21.9 percentage points year-on-year to 85.4%. Currently, penetration rate of value added business among the Group's overall customers is only 7%, while among the newly-developed customers in the first half of the year, penetration rate was 14%, reflecting the rapid development of this business and its huge growth potential.

### **New Project Development**

A number of small and medium-sized gas companies with single business model have been under mounting pressure in recent years due to the international trade dispute, regulation on gas distribution returns, higher procurement and financing costs. The Group seized the opportunity arising from industry consolidation, further expanded its gas distribution network and customer base. During the period, the Group acquired exclusive operating rights of 12 city-gas projects with an incremental population coverage of 2,170,000 and expected to drive additional gas sales volume of over 2 billion cubic meters in the next three years.

In the first half of 2020, the Group acquired 3 projects in Ruian and Pujiang in Zhejiang province, and Lianyungang Ganyu District in Jiangsu province. The Group's business footprint in the economically well-developed Zhejiang and Jiangsu provinces was further expanded. The 3 projects in Ruian, Pujiang and Lianyungang Ganyu are all located in the surrounding areas of the Group's existing projects, and have achieved pipeline network interconnection, forming a "one network" gas sourcing advantage. At the same time, it can make full use of the low-cost LNG resources of the controlling shareholder's Zhoushan terminal, to meet the rapidly developed gas sources demand of the newly acquired projects, highlighting the advantages of upstream and downstream integration. The subsequent integration and operation of the projects relies on the local operation team that has more than ten years of experience, it is believed that the project's expected investment return can be achieved in short term.

As of 30 June 2020, the Group had a total of 229 city-gas projects in China, spanning over 22 provinces and autonomous regions including Anhui, Beijing, Fujian, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Heilongjiang, Gansu, Jiangsu, Jiangxi, Liaoning, Sichuan, Shandong, Yunnan, Zhejiang, Shanxi, Shaanxi, Shanghai and Tianjin, with a population of 108 million.

## **Wholesale of Gas Business**

Leveraging on its well-established upstream resources network, smart dispatching system, and large-capacity transportation fleets, the Group distributed LNG to downstream customers such as small-scale gas distributors, LNG refuelling stations and power plants outside its city-gas concessions. During the period, the sales volume of wholesale of gas business recorded 3,669 million cubic meters, representing a growth of 6.8% over the same period last year, maintaining a leading market share in the domestic natural gas wholesale market. Due to low LNG price in the first half of 2020, revenue of wholesale of gas business declined by 15.1% to RMB7,919 million, however, benefiting from the national upstream natural gas reform and low-cost LNG resources, the gross profit of wholesale of gas business increased by 257.9% to RMB136 million.

At the same time, the Group leveraged on the low-cost LNG to enhance its bargaining power, cooperated with member companies to negotiate with upstream gas suppliers, successfully obtained diversified and cheaper gas resources, while reducing the purchase of expensive piped gas, creating value for member companies. The Group will continue to strengthen the advantages of the integration of LNG resources, distribution, storage and logistics capability, and make use of the strategic positioning of controlling shareholder's Zhoushan terminal to build a nationally competitive resources pool, link up internal and external transmission and distribution network, integrate the demand of downstream, and further expand its wholesale of gas business.

## **Optimising Gas Sources Structure**

In the first half of the year, the supply of natural gas resources was adequate. In light of changes in resource supply and demand landscape, the Group took advantage of the opportunities arise from the change in competitive landscape in the upstream sector brought by the liberalisation of pipeline network, and flexibly adjusted its resource procurement strategy. On one hand, the Group will broadly expand resource alliances, establish a multi-gas supply structure, and actively strive for new city gate connection to the main pipeline network, so as to improve the gas receiving capacity, ensuring the base volume of piped gas and expanding incremental volume with preferential prices. On the other hand, the Group will focus on unconventional gas resources in Shanxi, Shaanxi, Sichuan and Chongqing as well as the LNG resources at coastal LNG terminals, to strengthen the capability of acquiring competitive gas sources, and further reduce overall procurement costs. The Group strives to enhance gas supply with a view to providing strong support for our market expansion.

The Group actively participated in the natural gas reform for provincial pipelines to purchase gas sources from upstream suppliers directly, in order to realise upstream-downstream direct transaction. The Group continued to explore the procurement and sales of unconventional natural gas resources, so as to increase resources control capability. The Group signed a natural gas purchase and sale agreement with BP to provide the Group with piped gas resources with an annual volume of 300,000 tons for 2 years, to provide a more diversified supply of clean energy for the Guangdong region and support the coal-to-gas project in the Guangdong region. At the same time, the Group has established a gas sources management platform, which mainly includes module functions such as demand and supply matching, winter protection plan, procurement cost estimation, gas sources daily report, next month operation data verification and gas volume analysis to realise the Internet of Things access of pipeline network, energy supply equipment and meter. The Group leverages big data technology to establish algorithms to forecast demand and price, so as to achieve an optimal gas resources allocation.

## **Promoting Technological Innovation**

The Group focuses on addressing its business pain points and needs, by aggregating resources in the ecosystem, and building a technological innovation platform on iCome to enhance the Group's core competitiveness. As of 30 June 2020, the Group has obtained a total of 647 patents on construction of gas pipeline, reengineering of gas refilling system, intelligent monitoring of gas meters, etc.. During the period, the Group applied for the establishment of more than 199 technological innovation projects, focusing on application scenarios such as smart pipeline network inspection, smart voltage regulation, automatic control of integrated energy stations, low-cost and clean heating, and end-user energy saving. The progressive implementation of these innovative projects continuously strengthened the core competitiveness of the Group, reduced the energy consumption of customers and enhanced the social benefits of member companies.

## **Enhancing ESG management**

The Group attaches great importance to environmental, social, and governance (ESG) management, incorporated ESG metrics including safety operations, corporate governance, environmental protection, and social responsibility into management's remuneration. Meanwhile, the Group organised ESG online training for employees, and incorporated ESG training participation and examination as part of the criteria in employees' value assessment to ensure they know before they act. In order to cultivate and strengthen compliance awareness, the Group required all employees to study the "ENN Integrity and Compliance Guideline" and sign the "Compliance Commitment", so as to achieve its objective of "Creating a compliant ENN, building a healthy ecosystem". Thanks to the team's efforts, the Group was included in the Hang Seng ESG 50 index and Hang Seng Corporate Sustainability Benchmark Index for the first time after the quarterly review of the Hang Seng Family of Indexes ended 30 June 2020.

COVID-19 has brought significant threat to public health since the beginning of the year. The Group actively cooperated with the government to prevent and control the pandemic with the use of iCome, WeChat groups and posters on pandemic prevention and control in order to raise employees' risk awareness. The Group also purchased sufficient disinfectant and hand sanitiser to thoroughly disinfect offices, canteens and vehicles and regularly opened windows for ventilation. At the same time, the Group also effectively monitored and reported on the pandemic and provided masks, protective gears and nucleic acid tests to employees. None of the Group's employee was infected.

The risk brought by climate change cannot be denied. The floods in Southern China also brought great challenges to the safety operation of gas supply. The Group has established flood prevention plan to protect gas meters, pressure regulating boxes/cabinets and other gas facilities to ensure the safety operation of gas facilities.

Human and environment have built a harmonious symbiotic relationship. As a clean energy distributor, the Group implemented environmental protection in gas distribution and integrated energy business, and closely monitored emissions indicators. At the same time, the Group actively involved in a wide range of stakeholders to participate in environmental protection projects, encouraged shareholders to adopt electronic communication, and engaged all employees and stakeholders to participate in the "Earth Hour" campaign.

## **Capital Market Awards**

With years of steady growth in operating results and business models that keep up with market changes, the Group was included in numerous influential rankings in capital market in the first half of 2020, including No.996 in Forbe's The World's 2000 Largest Public Companies 2020 which leapt 438 places compared with 2019; No.24 in The World's 50 Most Valuable Public Utility Brands (No.3 among Chinese shortlisted companies), reported by Brand Finance, a UK brand valuation consultancy; No.148 in "China's Top 500 List" by Fortune Magazine, an international financial magazine highly recognised by investment professionals. These awards indicated the Group's powerful influence in energy sector and capital market.

## **OUTLOOK**

Chinese government aims to accelerate the formation of a new development pattern which is based on "domestic circulation", the improvement of domestic consumption shall drive the steady recovery of the economy, the resilience and vitality of China's economic development will be unleashed, it is expected that economic growth shall return to the level before the pandemic. The rapid growth of domestic industrial and commercial activities will lay a strong foundation for sustainable growth in energy consumption.

2020 is the critical year to winning the battle for Blue Sky. Major areas such as the "2+26" cities, the Yangtze River Delta, the Pearl River Delta, and the Fen-Wei Plain will continue to enhance environmental governance efforts to achieve the scheduled milestone. At the same time, during the 14th Five-Year Plan, the Chinese government will continue to push forward environmental governance and will continue to promote the optimisation and adjustment of the energy structure. The governance of highly polluted and high-energy-consuming industrial enterprises and the replacement of clean energy shall remain in top priority, where the use of natural gas and integrated energy will play an important role in the plan.

China Oil & Gas Pipeline Network Corporation is expected to be operational in the second half of 2020. The operations, dispatch and contingency of national trunk lines will be gradually improved. The liberalisation of pipelines will bring unprecedented development opportunities for the Group to flexibly utilise diversified natural gas resources. The energy reform is expected to provide sufficient and diversified natural gas supply. The Group's natural gas distribution business will gradually reduce its dependence on a single supply channel. In the future, the Group will have more capacity to coordinate resource supply and reduce the procurement cost so as to reduce the energy cost of C/I end users and promote the continuous expansion of natural gas distribution scale. Meanwhile, lower natural gas prices also created opportunities for the development of integrate energy to increase its profitability.

In the second half of 2020, the Group will focus on the following key measures to achieve the annual targets: in terms of natural gas retail business, the Group will seize opportunities brought about by coal-to-gas conversion, to develop C/I customers and residential users, so as to enhance the penetration rate of existing projects. The Group will also expand its market footholds to seize opportunities of industry consolidation during economic downturn, actively explore quality projects which are close to our existing projects, with huge industrial gas and integrated energy demand through M&A to boost gas sales volume. In terms of expanding the integrated energy business that supports future development, the Group will accelerate the market development of various types of industrial parks, to promote the integrated energy business model of synergistic supply of heating, electricity and gas, utilisation of multiple energy sources, and adoption of multi-technology. The Group will also emphasise project quality during rapid development and invests prudently according to internal guidance to ensure the profitability of the projects. In terms of value added business, the Group strives to understand the needs of residential and C/I customers to provide diversified and value added products, such as smart kitchens, in order to create value and utilise the value added services to retain customers and drive profit growth.

## FINANCIAL RESOURCES REVIEW

### Financial Resources and Liquidity

The Group's capital mainly derived from cash inflow of its business operations, financing, investment income and equity. The main factors influencing the Group's future cash balance are cash flow from operation, capital expenditures and repayment of debts.

An analysis of the Group's cash, current and non-current debts is as follows:

	<b>30 June 2020</b> <i>RMB million</i>	31 December 2019 <i>RMB million</i>	Increased/ (Decreased) by <i>RMB million</i>
<b>Bank balances and cash (excluding restricted bank deposits)</b>	7,938	7,373	565
Long-term debts (including bonds)	10,100	11,650	(1,550)
Short-term debts (including bonds)	10,620	7,495	3,125
<b>Total debts</b>	<b>20,720</b>	<b>19,145</b>	<b>1,575</b>
<b>Net debts<sup>1</sup></b>	<b>12,782</b>	<b>11,772</b>	<b>1,010</b>
<b>Total equity</b>	<b>31,947</b>	<b>31,020</b>	<b>927</b>
<b>Net gearing ratio<sup>2</sup></b>	<b>40.0%</b>	<b>37.9%</b>	<b>2.1 ppts</b>
<b>Net current liabilities</b>	<b>14,177</b>	<b>11,773</b>	<b>2,404</b>
<b>Unutilised credit facilities</b>	<b>10,379</b>	<b>13,448</b>	<b>(3,069)</b>

<sup>1</sup> Net debts = Total debts - Bank balances and cash (excluding restricted bank deposits)

<sup>2</sup> Net gearing ratio = Net debts / Total equity

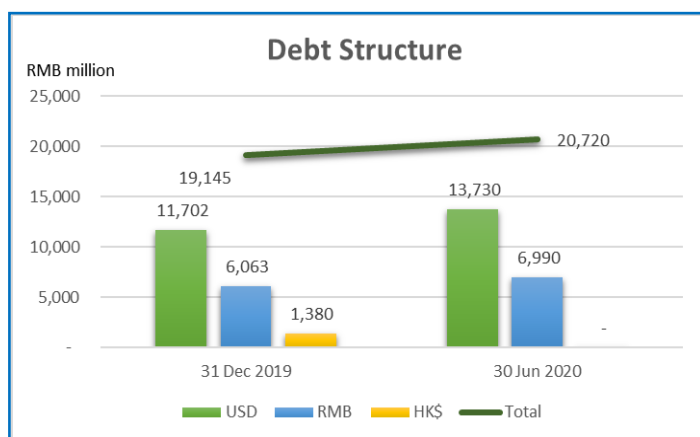


## Borrowing Structure

The Group has been adopting a prudent management policy on financial resources to ensure the stability and flexibility of the Group's capital and debts structure. As at 30 June 2020, the Group's total debts amounted to RMB20,720 million, representing an increase of RMB1,575 million compared to the total debts as of 31 December 2019, mainly because some enterprises have obtained preferential interest rate anti-epidemic loans. The Group's bank balances and cash (excluding restricted bank deposits) amounted to RMB7,938 million, representing an increase of RMB565 million as compared to the beginning of the year, reflected by an increase in debt. As a result, the Group's net gearing ratio as at 30 June 2020 increased 2.1 percentage points to 40.0% (31 December 2019: 37.9%).

### *Foreign exchange risk arising from bonds and loans denominated in foreign currencies*

As at 30 June 2020, the principal amount of the Group's borrowings denominated in foreign currencies amounted to USD1,943 million (31 December 2019: USD1,681 million and HK\$1,540 million), equivalent to approximately RMB13,730 million (31 December 2019: RMB13,082 million), and among which 46.3% (31 December 2019: 67.3%) is due after one year. In managing foreign exchange risk arising from bonds and loans denominated in foreign currencies, the Company entered into foreign currency derivative contracts, mainly cross currency swaps, with various financial institutions. The terms of which are in line with that of the Group's foreign bonds. Such foreign currency derivative contracts can mitigate the

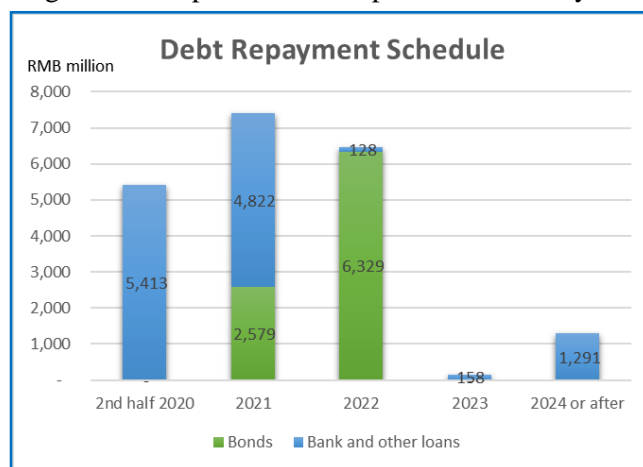


foreign exchange risk arising from the interest and principal payments of such foreign debts. In view of the growing tension between China and the United States, the Company increased the hedging ratio during the period. As of 30 June 2020, the Group has hedged debt principal of USD950 million (31 December 2019: USD785 million) and the hedge ratio of long-term USD debts reached 75.1% (31 December 2019: 62.0%). The Group will continue to closely monitor the foreign exchange market and take appropriate measures to mitigate the impact on its results when deemed appropriate.

### *The impact of debt repayment on cash flow*

The Group seeks to maintain strict control over the debt level and strike a balance between duration of debt and cost of financing. In managing long-term borrowings, the Group will seek to spread the maturity dates evenly over different years as possible in order to reduce the time pressure and cost of refinancing.

The Group has no bonds due in 2020, while the senior notes will be due in 2021. The remaining issuance quota of the wholly-owned subsidiary of the Company as approved by the China Securities Regulatory Commission on 10 December 2018 amounted to RMB2,900 million. In addition, the Company can also use the wholly-owned subsidiary's RMB5,000 million green bond quota as approved by the National Development and Reform Commission on 19 January 2020. Therefore, the Group has sufficient resources to repay the borrowings.



## NET CURRENT LIABILITIES

The Group's current liabilities mainly include a large amount of receipts in advance of gas fee, and construction and installation contracts. These funds are stable and will normally not be returned, therefore

the Group will invest the funds in development of new projects and maintain a reasonable cash level, resulting in net current liabilities.

As at 30 June 2020, the Group's senior note will be due within one year, as a result, the Group's short-term debt to total debt ratio increased as compared to last year. The Group will continue to monitor the market change, take the opportunity to refinance the expiring senior notes by issuing offshore long-term bonds. At that time, the net current liabilities will be significantly improved.

As the Group has stable operating cash flow, high quality current assets and good credit ratings, plus sufficient cash on hand, unutilised banking facilities and debt issuance quota, the Board are satisfied that the Group is able to meet its working capital requirements and future capital expenditure.

## CREDIT RATING

During the period, the Company's credit ratings given by three international rating agencies (Standard & Poor's, Moody's and Fitch Ratings) were favorable. United Credit Ratings Co., Ltd., the largest domestic credit rating agency, also maintains the highest AAA credit rating and "stable" outlook for Xinao (China) Gas Investment Company Limited, a wholly-owned subsidiary of the Company responsible for onshore business investment. These ratings reflect the Group's sound financial position which can generate highly visible and stable operating cash flow. The management of the Company believes that the good credit rating will continue to provide the Group with sufficient financial resources for its long-term development.

Since the Company announced the restructuring at the controlling shareholder level, Moody's has been giving positive evaluation, believing that the restructuring has no fundamental change to the Company, hence, maintains Baa2 (stable) credit rating on the Company. Standard & Poor's believes that the restructuring at the Company's controlling shareholder level will not have a direct impact on the operations of the Company as well as the credit profile on stand-alone basis, but it may need to adopt a group rating methodology to assess the credit profile of the Company due to the reorganised group structure. As the reorganisation has not yet been completed, Standard & Poor did not adjust the Company's credit rating during the period and remained at BBB+ (Watch Negative).

As of the date of this announcement, the credit ratings of the Company are summarised below:

	Standard & Poor's	Moody's	Fitch Ratings
Long-term credit rating	BBB+	Baa2	BBB
Outlook	Watch Negative	Stable	Stable

## CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no significant contingent liabilities.

## FINANCIAL GUARANTEE LIABILITY

As at 30 June 2020, the Group had issued guarantees to banks to secure loan facilities granted to an associate and joint ventures. The guaranteed facilities utilised was approximately RMB633 million (31 December 2019: RMB726 million).

## CAPITAL EXPENDITURES AND COMMITMENTS

### (a) Capital expenditures

For the six months ended 30 June 2020, the Group's capital expenditure was RMB2,860 million (six months ended 30 June 2019: RMB3,384 million), mainly related to piped gas projects, integrated energy projects and acquisition of new projects.

(b) *Capital commitments*

As at 30 June 2020 and 31 December 2019, the Group's capital commitments are as follows:

	<b>At 30 June 2020</b>	<b>At 31 December 2019</b>
	<i>RMB million</i>	<i>RMB million</i>
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
- acquisition of property, plant and equipment	939	1,021
- investments in joint ventures	580	495
- investments in associates	424	518
- other equity investments	5	259

(c) *Other commitments*

Since 2016, the Group has commitments to acquire LNG from three international suppliers. The delivery of LNG under such arrangements commenced in 2018 and lasts for 5 to 10 years. The Group is obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage, therefore these LNG will be utilised to satisfy the demand of domestic natural gas consumption from both the Group's piped gas customers and wholesale customers. Accordingly, the LNG purchase arrangements are not considered as derivative financial instruments within the scope of HKFRS 9 since the initial recognition.

The relevant purchase prices of these arrangements will be determined by reference to certain variables, such as petroleum price indexes prevailing at the market, and are denominated in USD. The Directors assessed the economic characteristics and risks of the embedded derivatives and concluded that they are closely related to the economic risks and characteristics of the relevant host contracts. Accordingly, the embedded derivatives are not separated from the LNG purchase arrangements as derivative financial instruments recognised in the consolidated financial statements.

## **COMMODITY PRICE RISK MANAGEMENT**

As the major operations of the Group are in China, revenues and expenses are mainly denominated in RMB, therefore, the Group is not exposed to significant foreign exchange risk in its operation. Except for the abovementioned foreign currency-denominated debts, the foreign exchange risk faced by the Group is mainly derived from LNG international procurement which is denominated in USD.

### *International LNG Procurement Contracts*

At present, the Group has three international long-term LNG procurement contracts, all of which have achieved normalised operation. The pricing of international procurement is mainly indexed to the prices of crude oil on the international energy market. In order to deal with the price exposure generated by international procurement, the Group has established a series of risk management policies and commodity hedging mechanisms. By hedging a reasonable proportion of planned annual LNG purchase and sale, to minimise the adverse impact of international energy price fluctuations on the Group's business, and also stabilise the Company's international LNG procurement costs and reduce commodity price risks.

The Group adopted hedge accounting policy since 1 January 2020 in order to better associate the hedging instruments entered into to manage the physical trading exposure, as well as minimises the volatility to the profit and loss statement arising from the fair value change in hedging instruments. Due to the impact of changes in accounting policy, oil prices and other valuation factors during the period, the gains on changes in fair value arising from commodity derivative contracts decreased by RMB705 million year-on-year. The

Group will continue to maintain its stringent risk management strategy, proving its determination to establish good corporate governance practice.

The Group has implemented a world leading Energy Trading Risk Management System (ETRM) and developed a corresponding Mobile APP Management System, both of which can combine derivatives' trading with physical trading to achieve a comprehensive and accurate digital risk management with high-frequency and multi-dimension. In addition, the Group will optimise existing hedging strategy, trading authorisation and risk management policies continuously, to better manage the risks associated with the Group's international LNG procurement.

## **AUDIT COMMITTEE**

The Company established an Audit Committee in accordance with requirements under the Listing Rules for the purpose of reviewing with the management the accounting principles and practices adopted by the Group and discuss auditing, internal control, risk management and financial reporting matters. The Audit Committee also maintains an appropriate relationship with the Company's independent auditor and provides advice and comments to the Board.

Deloitte Touche Tohmatsu, the Company's independent auditor, has carried out a review of the unaudited interim financial report for the six months ended 30 June 2020 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The Company's Audit Committee meeting was held on 18 August 2020 to review the Group's unaudited interim results and interim financial report for the six months ended 30 June 2020.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased a total of 270,000 shares of the Company from the market at a total consideration of HK\$19,027,495.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted a code of conduct set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules as the code of conduct for Directors of the Company to conduct securities transactions. The Company have made specific enquiries with all Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code and the code of conduct regarding Directors' securities transactions during the six months ended 30 June 2020.

Senior managers who, because of their office in the Company and person who is aware of the relevant negotiation or agreement of the Group or any information, are likely to be in possession of Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) of the Company, have also been requested to comply with the Model Code.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

During the six months ended 30 June 2020, the Company has complied with the Code Provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

## **DISCLOSURE OF INFORMATION AND PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY**

The announcement of interim results containing all the information required by paragraphs 46(1) to 46(10) of Appendix 16 to the Listing Rules have been published on the Company's website at [www.ennenergy.com](http://www.ennenergy.com) and the Stock Exchange's HKEXnews website at [www.hkexnews.hk](http://www.hkexnews.hk).

The Company's 2020 Interim Report will be available on the websites of the Company and the Stock Exchange's HKEXnews on and before or after Friday, 4 September 2020, and dispatch to shareholders.

By order of the Board  
**ENN ENERGY HOLDINGS LIMITED**  
**WANG YUSUO**  
*Chairman*

Hong Kong, 20 August 2020

*As at the date of this announcement, the Board comprises the following directors:*

*Executive Directors:*

*Mr. Wang Yusuo (Chairman)*

*Mr. Han Jishen (Chief Executive Officer)*

*Mr. Zhang Yuying (President)*

*Mr. Wang Dongzhi*

*Non-executive Directors:*

*Mr. Wang Zizheng*

*Mr. Jin Yongsheng*

*Independent Non-executive Directors:*

*Mr. Ma Zhixiang*

*Mr. Yuen Po Kwong*

*Mr. Law Yee Kwan, Quinn*

*Ms. Yien Yu Yu, Catherine*